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CHEMICALS

RESTRUCTURING OF CHEMICAL INDUSTRY PROPOSED

Paris INFORMATIONS CHIMIE in French Special Issue Jan 82 pp 14-20

[Speech by Marcel Bohy, head of the Chemistry Sector in the Commission for Industrial Policy of the Socialist Party]

[Text] Before I begin, I want to express my great pleasure at again meeting my friends at INFORMATIONS CHIMIE, whose initiative I believe to be entirely wise, albeit risky from some standpoints, as Pierre Peutey said a little while ago. I hope that we will succeed in accomplishing something effective today, and I think that INFORMATIONS CHIMIE, in whose beginnings I participated, should be able to continue to help us in this debate.

In rather rapidly disclosing, since the beginning of autumn, a plan for the furniture industry, and a little more recently one for the shoe industry, the government has swiftly demonstrated that it definitely intends to establish an industrial policy which will fulfill its major objectives for the direction of our economic activities.

You also know that during the Council of Ministers session held at the beginning of December, an extremely ambitious plan for the machine-tool industry was also presented to the government. I can tell you--and I don't know if the press has published it--that during that meeting, the President explicitly asked for the rapid formulation of other plans for other industrial sectors to which it would be important to bring the support of the state, and in the order of urgency he named the basic chemical industry.

In the Socialist Party, we have known for several years already that the large enterprises whose nationalization was stipulated in the Joint Program, would raise very specific and large problems.

That is why for several years, as is true for any political group, the specialized commissions of the party had begun to think about the consequences of this possible nationalization; as a participating member of the Economic Commission and of the Commission for Industrial Policy of the Socialist Party, I will thus tell you about the essential aspects of the considerations and proposals--for these are proposals and not plans, despite what some of my journalist friends have to say--that that we have formulated in anticipation of becoming in charge of our country's affairs.

To begin with, I will briefly review our major industrial policy objectives, as recently stated in Michel Rocard's interim plan. We will then see how these objectives must be implemented within our chemical industries.

I will not discuss again the reasons that have led us to believe that a significant and rapid reshaping of our chemical industry structures was necessary and desirable.

Mr Savostianoff has provided us with that information. Rather, I will come directly to the major principles which in our opinion should guide the work of those who will be responsible for thinking about and proposing to their supervising ministry, the restructuring which they deem desirable for achieving more efficiency.

Maybe I should state right away, and it is important to emphasize it, that it is clear in our minds--as Mr Savotianoff has stated--that a complete restructuring of our basic chemical industry is in no way a cure for all our ills.

However, it does seem to us to be a necessary, and even prerequisite condition, but certainly not a sufficient one, in order for our industry to obtain results as satisfactory as possible, at least for the intermediate future.

The interim plan contains four major industrial policy objectives:

The first, of a relatively circumstantial nature, is to ease the energy constraint.

The next two, which conversely are quite permanent, are to better control our domestic market and improve our international competitiveness.

And the last, which unfortunately threatens to be not circumstantial, but lasting, is to participate in improving our country's employment situation.

These are naturally general terms which apply to all economic activities. For a branch as large as ours, their implementation raises a certain number of problems.

We Have Played a Somewhat Innocent Game of Perfect Openness to the Outside

One of the most important goals is the control of the domestic market. You know that within the Socialist Party there is rather general talk of recapturing the domestic market. It is quite clear in our mind that we cannot achieve this by curling up in a ball.

That would mean closing our borders in the literal sense of the word; but we are sufficiently realistic and sane to note that all shadings are possible behind the assertion that the borders are open to international exchanges. All we need for this, is to observe the behavior of some nations, whether industrialized or emerging.

We believe, and we are not the only ones, that in some cases and for some 15 years, we have have played an extremely honest--and I would say somewhat innocent--game of full openness toward the outside. We note, and although I will not go into details everyone will understand what I mean, that even our most powerful neighbors have found the opportunity to introduce here and there the stresses which they deemed necessary--which were not in any way operations of a brutal nature--to protect and keep alive a number of activities which they felt were necessary for the the balance of their economies.

We believe that in a number of cases it would be desirable for us to adopt the same type of attitude, but that would not be a long term solution. Mr Savostianoff has said it--and when you are a chemist yourself it is hard to acknowledge it for your own country's chemical industry--but we believe that the quality of our industry is not excellent, and if its domestic market is poorly controlled, it is precisely because the quality of its products is not entirely what it should be.

We therefore believe that a better control, and maybe a certain recapture of our domestic market, will ensue from an improvement in the quality of that which as French chemists, we make or discover. This is naturally a long range objective, and everyone in this room knows it as well as I do.

One Idea Which Was Born Before 10 May

While I don't want to dwell on the reasons which argue in favor of restructuring the chemical industry in France, I still want to point out that since the beginning of the 1960's, the government in power at that time had asked itself the question of whether it would not be desirable, for economic efficiency, that the chemical industry in France adopt different and if possible, better structures than the ones it had at the time.

To this end, the government had asked the Inspector for Finances, Bernard Clappier, who since then has become Governor of Banque de France, to present a report on the matter. Many of us know and have had occasion to read this Clappier Report.
I don't know if this report will have been premonitory, but in any case we will all know it in a few months, or in one or two years.

Even at that time, the report described with great clarity, almost brutally, the strengths and weaknesses of our industry, and the means which Clappier would have used to change structures so the industry would become more efficient and competitive. This, let me remind you, was 12 years before the oil crisis.

The report stated that the French industry could usefully be redistributed into two enterprises, around two axes.

As you can see, the restructuring idea was not conceived yesterday, or more specifically, not on 10 May. The situation has of course changed since then, and among the questions that must be asked in order to carry out a restructuring operation, it is obvious that energy dependence has assumed an importance which it did not have in 1963.

Assuming that it would be desirable to reshape our chemical industry into new structures, these could be--maybe not copied from those of our foreign competitors--but inspired by the efficiency principles that can be discerned behind the results and appearances of these enterprises. I know that we do not like to refer to foreign models, but in the case of the chemical industry, we are compelled to acknowledge that our market is not a national one. In the cement industry for instance, where international trade is low, we can think strictly in terms of a national market; this is not possible for the chemical industry. Under these conditions, it is clear that our chemical industry activities should not compete with one another, but rather with their counterparts in surrounding countries. In this domain--and I know that this is also questioned very closely--some American analysts such as the Boston Consulting Group, have for some time already made some findings from which they have drawn the body of a doctrine (they would probably not like the expression) that is quite illuminating in understanding the strategy and results of the large international groups. Neither do I want to go into the details of another analysis by another consultant, unfortunately an American one as well, about the types of activities in chemical industries, and about the Kline proposition, which explains very well the major activities of heavy chemistry, fine chemistry, and parachemistry. The latter a less capitalistic one, referring directly to final consumption, with more regular and generally higher profit ratios, but naturally concerning smaller volumes than those of the large basic industries.

Raze the Structures and Move Fast

We can now ask ourselves a number of questions about the principles which will guide the selection of a possible solution; there are not too many of them, but the outlines of this solution obviously can and must be discussed among experts.

What then are the principles, the big questions which must be examined before undertaking this restructuring? Before answering, we must establish two fundamental prerequisites.

Before engaging into negotiations, the first prerequisite which we believe to be fundamental is that all the enterprises concerned come to the discussion table and openly disclose their structures.

An attitude that amounts to saying "restructuring is well and good for the others, but it doesn't concern me," can only lead to failure in this endeavor.

The second prerequisite is the calendar. We believe that we must progress rapidly and with determination; those who think that we have all the time in the world either are not aware of the difficulties, of the nature of the difficulties in the industry, or have not considered the matter and want more time to think about it. Unfortunately, the closing of balance sheets at year's end does not brook delays. Time passes inexorably, and Mr Savostianoff has pointed out the nature of that burden.

In order not to put the cart before the horses, we must first analyze the industrial aspect, that is begin--and that is not our usual custom--by doing chemistry. This is a chemist speaking, and if you will pardon me and pardon my personal bias in this matter, we must first do chemistry, and then, and only then, ask the legislators and financiers to provide simple and clear legal frameworks for the organizations that will have first of all been defined in terms of industrial criteria.

And finally, as an equally fundamental matter, the financial structure of the groups that will result from this work will have to be healthy from its inception.

We know that there are at least three reasons for the mediocre results of our chemical enterprises in France: one is structures, which we are discussing today; the other certainly is the quality of the product lines; and obviously, there are the balance sheets of these enterprises.

We should undoubtedly recognize that the two latter reasons are not independent of one another: our balance sheets have gradually deteriorated simply because our product lines were not all that they should have been. We note that for other enterprises, unfortunately foreign ones as a rule, balance sheets did not deteriorate as they did here, wherever the quality of the product lines was demonstrably excellent.

The Goal is Not Large Enterprises but High Performance Ones

These prerequisites having been stipulated, what are the big questions that can arise during the negotiation?

First of all, the number of enterprises: the restructuring concerns on one hand organizations that have already been nationalized, and on the other, those that are nationalizable. We also have large chemical organizations within groups whose main activities are not chemistry, and while everyone is thinking about PUK, there are also the oil companies, and the Enteprise Miniere et Chimique.

The question then is to know which activities will be effectively involved in this restructuring. This is a question which we will perhaps touch upon in our discussion.

The question is to determine into how many organizations all these activities should be regrouped. The answer could be very brutal: in terms of business turnover, the organization which in all likelihood will be nationalized as early as the beginning of next year, will be of the same order of magnitude as a major German company, meaning approximately 70 billion francs.

We might consider--and some have said as much--that we could create a single chemical enterprise of the ICI type in France.

Others believe, and this is the ultimate conclusion of our own proposal, that a single enterprise is not necessary in economic terms, and that it presents a good number of drawbacks--I might say--in sociological terms.

First of all, size is not the fundamental factor; as we all know, the goal is not to have large enterprises, the goal is to have high performance ones. It is clear that by gathering up everything we now have, and making no changes, we would create a monster which would be invertebrate.

On the other hand, to maintain the plurality of small enterprises as they exist today, would only perpetuate duplicate jobs and activities, as well as sterile competition in many cases; we will return to this point later.

This of course leaves the middle course: two or three groups. Analysis shows that a structure containing two groups, each of the order of 30 to 35 billion francs in turnover, would be a possible solution; its advantage would not be to maintain competition between two French groups, which we believe would be a mistake in this intermediary field, but rather to maintain a sort of competitiveness or emulation.

A single enterprise requires a single type of management, while two enterprises make it possible to have two management styles, in social, economic, as well as technologic terms. Obviously, the financial constraints are the same, but that is not all there is to it. For a certain number of activities in the enterprise, we believe that emulation, the possibility for the state to compare efficiencies, is a factor not to be overlooked.

What structure should these groups have?

Two opinions have come to light in recent years. On several occasions, some have spoken of creating a number of single-product enterprises; I was going to say Engrais de France, but that would be naming an enterprise that has already existed; on the other hand, why not Pharmacie de France, Plastiques de France, and so on.

A Strategy for a Balanced Product Line

If on the other hand we refer to the principles of the Boston Consulting Group or of Kline, which I mentioned earlier, and if we analyze the large international chemical groups which are reasonably successful, we find that there aren't a whole lot of possible strategies for establishing the structure of our national groups; indeed, there are two possible major strategies for an enterprise of national size. The first consists in having a product catalog, a balanced portfolio of activities in every sense of the term, including products of diverse economic or technical nature, stable as well as fluctuating products, and basic products as well as consumer products. To whatever extent possible, this balance must also be reflected in geographic terms.

Today, many enterprises such as Dow or the big German firms have two or three basic axes of activity, one in Europe, another in the United States, and the third distributed among the other OECD countries.

The economic characteristics of these various markets are not alike; unquestionably, the balancing effect is there to secure the position of these enterprises operating on the international market. However, there are major exceptions to this rule, in the form of enterprises which do not appear to have balanced product lines, although they often claim that they are striving for equilibrium.

Some of these are involved only in fine chemistry or parachemistry. Others are essentially in heavy chemistry (as in the case of Dow). But we also know that in order to succeed, these enterprises must be of international size; it is obvious that in this case, being the world leader provides key advantages, and the possession of a true distribution, of a true geographic balance of activities, provides a stability that we see reflected in their results.

But it would be difficult for the French chemical industry to use this second strategy today. The French petrochemical industry does not have the means, no matter how we reorganize it, to use a world strategy of the Dow type. Neither do French pharmaceuticals have the means to use world strategy of the Ciba-Ceigy type. We can discuss it, but in any case this is our first conclusion.

On the other hand, we believe that a strategy based on a balanced product line, which is the one we see generally being used by the large German firms, is accessible in the immediate future to the two enterprises which would result from our restructuring. Of course we must add that the chemical industry is strongly characterized by the product specialty concept. This very fashionable notion can be found in many industrial sectors, such as lumber, paper, cellulose, cardboard, and others.

This concept becomes particularly important in the chemical industry, because the specialties of this industry have the attribute of being deeply interconnected.

This raises the delicate question of division of activities among the two groups. Must each of the two groups make all the products? The fact is that French chemistry covers a broad range of all chemical products; or, on the contrary, must each of the groups be composed of a small number of specialties compatible with one another, mindful of the interconnections I mentioned, it being understood that other specialties would be entirely lacking from these groups.

Of course, the real difficulties begin when we move to practical applications because each one of us then becomes directly concerned.

Nevertheless, there remains the question of which specialties will be grouped together, and which will not.

We believe that the large petrochemical branch does not have to be gathered along a single axis. The magnitude and quality of the French petrochemical industry, its integration into downstream lines, and its geographic structure are assets which must be taken into consideration.

The two groups could thus each have a petrochemical basis; our petrochemical industry as a whole is not based on extraction, or completely blocked geographically, or gathered in a single organization.

On the other hand, we feel that a very large chemical industry such as the halogen branch, can be perfectly well reorganized in only one of the two groups. This is a branch of chemistry--and those who are familiar with it know it better than I do--in which interconnections are quite remarkable, remarkable for the chemist's mind, and fundamental to the economy of the activity.

In terms of plastics, the concept of specialties, geographic considerations, and the current situations of the various groups, lead us to think that it is not necessary for one organization to make all the plastics and the other none. Some specialties can be naturally detached; for instance, the group which has a petrochemical base and a mastery of halogens, can naturally produce polymers which are directly connected to the chemistry of halogens. Conversely, the other group, which would have its own petrochemical base, could devote itself more specifically to the chemistry of polyolefins and that of styrenes.

This is one possible choice, and not the only one.

In the area of fertilizers, I would say that the question is threefold: raw materials, production, and distribution.

I will not delve on raw materials today. We might come back to them in the discussion about the price and control of raw materials.

But for production--and this is only a proposal and maybe a basis for discussions so that specialists may state their positions and select or tear the proposal apart--we believe that one of the groups could devote itself to the production of phosphate and potassium fertilizers, while the other group would work on nitrogen fertilizers.

Why? You know very well that I refuse to name any one French enterprise, because as things stand now we can already find a preponderance of phosphate and potassium fertilizers in some groups, and a majority of nitrogen ones in others. But the group in which we feel it would be desirable to maintain the bulk of nitrogen fertilizer production, is precisely the group which, lacking the halogens, would be responsible for synthetic gas chemistry, a chemistry which naturally involves ammonia and secondarily, methanol.

What is the purpose of fertilizer distribution? This is a question which the French have frequently asked themselves, and which has given the chemical industry many problems for years.

Our feeling is that the distribution of these fertilizers can be left to the chemical enterprises concerned, but that an independent organization could also be created, to receive from the manufacturing companies, either processed fertilizers or the major raw materials.

In this connection, I would simply like to point out that in recent years we have attempted to reduce the number of our producers. Nevertheless, the French fertilizer market has steadily deteriorated in terms of the market shares controlled by national producers.

This makes it all the easier for me to say that under these circumstances we must stop the current trend, or even proceed to recapture our domestic market to some degree.

The preceding administration considered it quite desirable to open the French fertilizer market to importation, and when figures were requested, some officials estimated, as we do, that for France to import 20 percent of its nitrogen appears to be a quite normal or even desirable state of affairs.

The question of course remains, although it had not been raised, as to the sources of this nitrogen. Should it come from the rest of the Common Market? Should it come from the developing nations? The question remains open.

As Mr Savostianoff mentioned earlier, it is true that there has been much discussion about relocation. Perhaps I should have presented this prerequisite. Should our chemical industry remain on our national soil?

In our view, the basic prerequisite is that our chemical industry is on the whole, essential to our short term or intermediate economic balance. Therefore the industry must remain in this country. To indiscriminately open our borders to importation is out of the question.

As far back as 1967, I was told by one of our major industrialists: "My friend, we will not build any new phosphoric acid plants; when consumption increases, we will turn to importation."

I find that in 1981, we still, and more than ever, continue to make phosphoric acid in Western Europe, and you know as well as I do that Morocco has more phosphorus pentoxide manufactured in Europe than it produces on its own territory.

These principles having been stated and these structures sketched out, I would now like to say a few words on two aspects which I believe to be very important and which concern research and investments.

Most of the Major Progress is Achieved in the Major Enterprises

Finally, although my address is essentially industrial and economic rather than financial or social--at least in theory--I would still like to conclude with a few words on these aspects, which are not always without importance in our daily life.

First of all, concerning research, its enterprises will immediately have product lines of mediocre quality, as I mentioned earlier. In saying this I am not speaking as a member of the Commission for Industrial Policy, of the Socialist Party, nor as an official of a French chemical enterprise; it is unfortunately the slumbering journalist in me, who is expressing himself.

It is clear that restructuring will not provide an immediate solution to this problem, but we think that it will put us in an appropriate position to gradually remedy this weakness.

Twenty or thirty years ago, people worried about the gigantic size of chemical enterprises throughout the world. Studies had even been published, brilliantly demonstrating that major progress and innovation in chemistry came from small enterprises and not from the giants.

We are now forced to acknowledge that this has been a mistaken notion for a quarter of a century; "small is beautiful" may be true in some fields, but not in chemistry.

You know as well as I do that the most significant progress today is being made in the large enterprises.

It is obvious that the inadequate size of our enterprises has entailed regrettable duplications. Our research efforts have led to the assignment of teams which work 100 km apart and ignore each other, and to the allocation of sums of money which separately were insufficient to assure success, while the results would probably have been much better if these teams had worked together with a coherent budget.

What this means, is that if we do not succeed in the large enterprises, the end result will be bad.

Ultimately, we think that if men are motivated by profit, they are not motivated by profit alone, and we believe that by endowing more efficient, more rational, and more logical structures, we will achieve greater efficiency even if only in the long run.

There is No Question of Adding Facilities Which Would Be Misused

I would like to make two or three remarks concerning investments, starting with industry as a whole, and then returning to the more specific cases in the chemical industry.

In the Commission for Industrial Policy, we have taken pains to analyze as thoroughly as possible, the problem of industrial investments in France, and we made the following discovery: each year, the total investment of the French nation is 450 billion. One third of these 450 billion, or 150 billion, go to housing. Another third goes to energy, transportation, agriculture, and all the major national infrastructures; in the last 150 billion is to be found the whole remaining balance of economic activity: services, trade, business, distribution, and obviously, industry in the strict sense of the word (that is except for building and public works on one hand, and except the food industry on the other).

Industry in the strict sense of the word represents roughly one-half of the 150 billion. And you would need an electron microscope to detect the chemical industry itself within this sub-sub-sub-total!

Seventy five billion for the industry as a whole: this still implies that a certain growth in industrial investment, a voluntarism--the term is awful--is surely not unreasonable, when you think of the powerful momentum that can be engendered by the industrial investment that produces goods (there is good reason for using the word goods to describe material things). Not that services and distribution are bad, but industry is what creates material goods. Investing in the production of material goods therefore seems desirable to us, especially when you notice, as in recent years, that investments in trade and services have continued to grow, while industrial investment decreased.

In 1972, more was being invested in industry than in goods and services; in 1979, for the first time we have invested more in the business sector than in our industry.

Naturally, this is a fundamental trend. But nothwithstanding it, when we examine our industrial strength we can worry and wonder whether we have not entered too soon into what we might call the post-industrial era.

To return to our chemical industry, the question of investment was just mentioned by Mr Savostianoff, who said that it should be approached with care. Of course, it's true that it seems somewhat insane to speak of investment in an industry which is crying every day about its overstocks.

The answer is clear and simple, and it pleases me to give it here, among people who know what they are doing. We have a very large industrial establishment. There is no question of adding facilities which would be misused. But within these large organizations, we know perfectly well that the quality of the investment, that the quality of the equipment, and that the quality of the units, is not always what it should be, what it could be.

Then, from this position, if an investment effort is to be made, and we would like to see it made, it seems evident to us that it will have to be made to improve our industrial facilities.

In fine chemistry, in parachemisty, this is naturally not independent of investment decisions, of the achievements of units which manufacture new products.

To conclude, I will say a few words about financial and social aspects.

In the financial area, I will recapitulate what I said earlier. We have to be provided with sound financial structures so that the government will have the elements which will allow it to judge and form correct comparisons with the international situation. If the government wants to carry out an industrial policy, it is faced with two options: it can either underwrite structures with bad financial structures (after all, the collectives are there for that, even though we wish that they were there for something else), or provide them with sound financial structures and thus be in a position to control the eventual discrepancies, the slackness which could form in the management of these enterprises.

Finally, it is clear that these enterprises must be managed by competent and combative men, and that we must remain fundamentally competitive with those around us. If the French were to spend three times more money for chemistry than their competitors, they could not devote the money to another activity, and it would therefore be a loss elsewhere.

We Continue to Believe That the Supervisory Council and Board of Directors System is Preferable

I would like to dwell a little longer on the social aspect of this problem.

I might touch upon two facets. I first should remind you--for this was not the position of the Socialist Party but that of our Commission for Industrial Policy--that we have felt that the legal structure of the groups as a result of nationalization ought to be a structure of the Law of 1966 type, that is, that we supported companies with supervisory councils and board of directors.

We felt, and still feel that for nationalized companies the supervisory council and board of directors system could be an efficient means for ensuring the independence of company heads with respect to day-to-day management of their enterprises.

We also looked around us: in the major German chemical enterprises, the supervisory council is composed equally of representatives of capital holders and of personnel representatives. We felt that this solution would be be a quite effective way, free of troublesome ambiguities, to give the work force in enterprises a very tangible grasp on management and on decision-making in matters which concern it.

As you know, our views gained no following, since first of all or party felt it preferable to retain traditional administrative council structures, with a president and general manager, and secondly, that the administative council should be composed of three thirds: one representing shareholders, another the personnel, and the last representing the customers of the enterprise involved.

It is not up to me to judge the option that was made, but I felt that there was nothing wrong with sharing our conclusions with you.

I would still add that the terms of nationalization are not ad vitam aeternam, and changes are possible. Time will show what changes occur in this field.

There Must a Temporary Employment Freeze

In more practical terms for the chemical industry, we noted one last but important fact concerning the eventual adoption of this restructuring.

In order for this major reform to be accepted by all, and especially by the mass of concerned workers, rather than solely by satisfied officials, company heads, or general managers of enterprises, it is vital that this reform not be accompanied by a wave of firings, reassignments, and retirement of personnel, in all the various organizations, in other words everywhere at once.

We believe that this is a reasonable position even if it might appear like demagoguery, which it is not in our view, because we believe that a halt is needed. Some call it a moratorium, a term which I don't like very much, because in social terms we would like to see profound reforms. But as we see it, this halt is of a strictly temporary nature.

We justify it as follows: in the short term, restructuring can bring about certain improvements in the results of the enterprises involved. Not that we expect miracles. But we think that a few more percentages in efficiency can be obtained in the short term as a result of this restructuring, in terms of a more rational use of means of production, transportation, and even business activities.

We therefore think that while it won't solve everything, this productivity increase can at first, temporarily as a transitional measure, be used to freeze employment, with the exception of the implementation, but in perfect coordination with all interested parties, namely the workers involved in a given closely timed operation about which all are in agreement.

If maintained for a long time, this pause can only lead to a degradation of results in our enterprises. The advantages derived from research and from investments in more efficient tooling, could in no case hide the problems of too many or outdated shops, and of an excessive number of personnel hired in periods of optimism.

But we must be realistic. When the chemical industry was making a lot of money, it hired a lot of people and paid them better than many other industrial branches.

Now that the lean years are stretching out, we will have no other choice than to persevere in our efforts in this field. We therefore suggest that the leaders of the resulting enterprises be appointed with an imperative mandate to rapidly resume the efforts needed to rationalize the means of industrial production, and to organize employment.

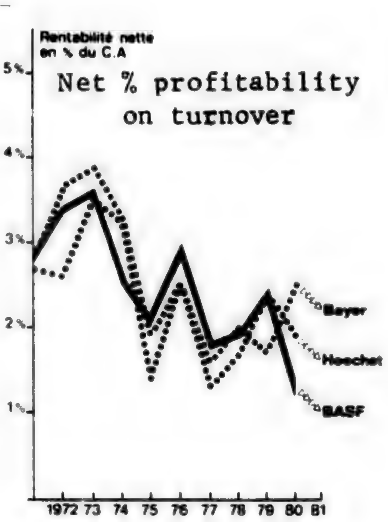
I know that in saying this I am not talking against employment, and that I am not saying that the chemical industry will contribute to the maintenance of employment. Let us be reasonable. The French nation is a large complex; withdrawing 1000 people from an enterprise, provides the enterprise with a short term cash flow of 50 million. The enterprise ends up with 150 million cash flow instead of 100 million, but the French state must continue to feed these 1000 people. There are two possibilities: either it feeds them very badly, and that's scandalous, or it feeds them well, and those 50 million have to be found somewhere in any case.

If the effort must be made to put our chemical industry in order, it is so that its competitiveness status will be as clear as possible in the eyes the government who will be in charge of it and intends to direct industrial policy.

This being said, it is clear that we think that liberal capitalist reasoning applied by itself to an enterprise considered apart rather than within the context of the French nation, does not strike us as the best of solutions.

I don't know if a pause will occur where the chenical industry is concerned; I don't wish for it and I hope to have given you the reasons for my deep conviction against it.

Concerning the German Model



One may wonder to what extent the balanced portfolio strategy can still be considered as a development model for chemical group of world caliber. One thing is certain: for 10 years, the three major German firms have faced a gradual but irresistible drop in profits (see figure). Whence a clear tendency to readjust their activities in favor of sectors with higher value-added, such as pharmaceuticals and phytopharmaceuticals (Hoechst and Bayer), photography (Bayer), and mass consumption products, particularly magnetic media (BASF).

On the other hand, upstream integration is being differently analyzed: Hoechst and Bayer, no longer involved downstream, don't seem to be interested; conversely, BASF (producer of hydrocarbons and refiner on German soil) seems anxious to develop its resources and is participating in exploration and exploitation through its Wintershall subsidiary. In particular, the group belongs to the consortium which is expected to exploit the enormous methane deposit at N-W Dome in Qatar.

Finally, concerning geographic diversification, the three German firms have very similar policies: massive implantation in the United States, significant activity in Japan, and rapid expansion in rapidly growing markets (notably South America).

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TRANSPORTATION

DEBATE CONTINUES OVER FUTURE OF 150-SEAT AIRLINER

International Strategies

Paris AVIATION MAGAZINE INTERNATIONAL in French 1-14 Mar 82 p 13

[Article by Roger Cabiac]

[Text] The positions being taken by aircraft manufacturers involved in the "super-efficient" 150-seat commercial transport program are so different and often contradictory that the careful observer tends to become perplexed at the way this program is evolving.

McDonnell Douglas and Fokker attribute the failure of their negotiations on the MDF-100 project to their joint determination that there is neither a market nor an engine for such an aircraft.

Boeing does not appear to have a very clear position on the matter. Airbus Industrie, on the other hand, is convinced there is a market and hopes that an engine manufacturer or group of manufacturers will very soon hold a similar view.

Such experienced aircraft manufacturers as McDonnell Douglas, Fokker, Boeing, and Airbus Industrie are all capable of detecting the existence, scope, and limits of a potential market for a commercial transport. Consequently the only logical explanation for their differing views apparently lies in the impact of their respective strategies.

Hence the position taken by McDonnell Douglas and Fokker must no doubt be interpreted as their way of justifying the failure of their negotiations.

Hence Boeing's vacillating attitude must be viewed as indicative of the desire of that company's management to preserve the marketing strength of its current programs--737, 727, and 757 families--while at the same time giving itself, with its B 7-7 project, the means of intimidating or, if need be, meeting the competition.

Airbus Industrie obviously does not have the same concerns as Boeing. The European consortium has no 150-passenger aircraft in its range of transport production programs. It is logical, therefore, for it to wish to fill this gap with the A320. But the A320 program is still having difficulties. With the exception of Air France, not one of the major airlines in Airbus Industrie's member countries has indicated it is prepared to buy the A320. Hence to launch this program, Airbus Industrie hopes to receive a favorable decision from a major American carrier, Delta Air Lines, a decision that would prompt an engine manufacturer or group of manufacturers to develop the "super-efficient" engine enabling the aircraft to achieve desired performance standards by late 1986.

Yet no powerplant manufacturer currently seems ready to commit itself to such an engine program and, a fortiori, to guarantee certification by 1986 of an aircraft powered by such an engine. And therein lies the A320's basic problem.

Assuming that air transportation expands at a reasonable rate, the A320's commercial success depends on its being available by 1986, because its performance characteristics would then by superior to those of its competitors. But Airbus Industrie conditions this aircraft's performance on use of a jet engine that will most likely not be available by the 1986 target date.

On the other hand, if the decision were made to delay introduction of the A320 much beyond 1987, pending development of the desired all-new engine, then the Boeing B 7-7 is liable to make the A320's airframe technology obsolete.

Lastly, there is still the question of what Fokker plans to do in the commercial transport field following cancellation of the MDF-100 development agreement. Will the Dutch firm join with Boeing? Or with Airbus Industrie? Or will it decide to go it alone by concentrating its efforts on modernizing its F-27 and F-28? In any event, modernization of the F-27, entailing its reengining, would inevitably cause some concern among officials of the French-Italian ATR-42 [twin-turboprop commuter] consortium.

Failure of MDF-100

Paris AVIATION MAGAZINE INTERNATIONAL in French 1-14 Mar 82 p 19

[Article by PS: "Fokker Seeking New Commercial Transport Goals"]

[Text] On 5 February, with startling suddenness, McDonnell Douglas and Fokker released a joint and somewhat terse statement announcing termination of their agreement on joint development of a 150-seat short-to-medium-haul transport, the MDF-100. A few days earlier, a spokesman for the Dutch manufacturer had still discussed the project's prospects in relatively optimistic terms. Theoretically at least, this termination has left only two competitors vying for the 150-seat transport market and suddenly compelled Fokker to view the future of its commercial transport activities in different terms.

Some 9 months after signing a cooperation agreement that had caused quite a stir, at a time when negotiations with the Japanese aircraft industry seemed close to fruition, the MDF-100 has disappeared from a cluttered scene whose aspect had already frequently changed since mid-1981. Sanford McDonnell and Frans Swarttouw said cancellation of their joint venture was due mainly to the depressed commercial aircraft market, the current airline recession having seriously dimmed the outlook for orders of new aircraft.

No reference was made, however, to the engine problems plaguing the different airframe manufacturers involved who estimate--or estimated--with more or less optimism and conviction that the 150-seat transport will constitute a very large commercial market by 1986 or 1988. While Fokker simply announced it would now concentrate all its funds on programs such as the F-27 and F-28 transports, McDonnell Douglas very clearly stated it was still interested in developing this type of aircraft and would continue to discuss this possibility with potential partners and would likewise continue its development studies to this end. Meanwhile, the Long Beach design offices will examine the possibilities offered by new derivatives of the DC-9 and DC-10.

Waiting is Expensive

Beyond the wording of the official McDonnell-Fokker statement, there are several possible underlying reasons for this somewhat hasty cancellation. It is true that the market is depressed, that a very large number of airlines are strapped for funds, and that hopes for an upturn are taking an unusually long time to materialize. Moreover, it is unlikely that any basic technical disagreement had divided the Dutch and Californian design teams.

On the other hand, although the MDF-100 program--like the A320 and B 7-7 programs--did correspond to a real long-range market, it had certainly begun to slip because launch conditions could no longer be met in the relatively near future. In the absence of an adequate engine, customers are reluctant to cross the Rubicon without further delay. In addition to the airlines' cash-flow problems, some observers also, paradoxically, point to the impact of lower-than-expected aviation fuel prices. As a result, the fuel savings to be obtained by using more fuel-efficient aircraft have become less attractive than inordinately pessimistic projections had initially led airlines to believe.

Even though all parties involved do not share this view, it does appear that McDonnel Douglas and Fokker felt they would have to wait too long before being able to launch the MDF-100. This slippage entailed expenditures that were becoming increasingly difficult to justify, especially by the American party. Even though Fokker was spending its own funds on the project, it could, in fact, count on the Dutch government's willingness to give it financial support, a factor obviously conducive to making it more patient than McDonnell Douglas.

If there was any disagreement between the two partners, it undoubtedly centered on this financial aspect. Each of the two former partners has now withdrawn to its former positions, having acquired additional experience, of course, but without having any possibilities or renewing their partnership. This unpleasant but not thereby alarming situation does have special significance for Fokker, however.

Return To Europe?

Under Frans Swarttouw's dynamic leadership, Fokker had sought to reassert its claims as a full-fledged commercial transport manufacturer capable of assuming a leading role above and beyond its well-established F-27 Friendship and F-28 Fellowship programs. From the Super F-28 to the F-29 first of all, and then with the MDF-100 Atlantic project, plus hopes of a partnership with Japan, Fokker has traveled a long road, but this road leads nowhere.

What will Fokker do? When failure of the MDF-100 venture appeared likely, the company had automatically thought of replacing the F-27 with an advanced-technology aircraft tentatively called the FXX. This plan will now probably be revived and updated, but without being fully implemented before the late 1980's. Before then, the Dutch manufacturer will have to reassess its attitude toward the European aircraft industry in general and the Airbus Industrie consortium in particular.

Toulouse [Airbus Industrie] had made overtures with respect to the F-29. This offer did seem advantageous, of course, but Fokker had quite obviously deemed it somewhat too restrictive in the light of the company's clearly reaffirmed desire for independence, its insistence on being the prime contractor or at the very least, as with McDonnell Douglas, a truly equal partner. All technical and commercial considerations aside, had Fokker's management sets its sights too high? This previously evaded question now awaits a clear answer.

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ALFA, FIAT PLAN JOINT PROJECT FOR SUPER FUEL-EFFICIENT CAR

Milan IL GIORNO in Italian 11 Feb 82 pp 1, 4

[Article by Luigi dell'Aglio: "Within 10 Years, 33 Kilometers on 1 Liter"]

> [Text] In order to invent the most economical utility passenger car, Alfa and the Turin company [FIAT] must be able to count immediately on reservations by Italians and on state aid with higher taxes on traditional automobiles. A saving of 1 trillion lire in oil is anticipated in the near future.
>
> FINMECCANICA [Mechanical Engineering Finance Company], acting for Alfa Romeo and FIAT, has submitted a joint plan for producing the Alfiat, the automobile of the near future that will travel 30 to 35 kilometers on 1 liter. The series of final plans is scheduled for 1990, but the first vehicles capable of traveling 25 kilometers on 1 liter of gasoline will come out already within 2 or 3 years. We are confronted by a real revolution in the field of the automobile, a revolution that, from a certain aspect, will be imposed by the state, which, in order to compel Italians to save gasoline (1 trillion lire by 1985 becoming 6.3 trillion by 1990 are mentioned), will tax normal vehicles all the more heavily, the more they consume.
>
> FIAT and Alfa have said clearly that, in order to be able to make the plan a reality, they must be able to count right now on advance orders by Italians and on a contribution by the state. Finally, it is difficult to speak of prices of the Alfiat, also because, at first, it will be a question of modifications to the engines of existing automobiles more than of an out-and-out new automobile.

Rome, 11 February--The Alfiat is about to be born, the automobile conceived by FIAT and Alfa that drinks less gasoline. The first version will see the light of day by 1985 and will make it possible to save on the order of 15 to 20 percent fuel. The second version will come out by 1990 and will reduce consumption to half. In practice, a "sober" utility passenger car will travel 30 to 33 kilometers on 1 liter of gasoline. An automobile with medium-large displacement will consume as much as a current utility passenger car. In order to win the energy challenge, private and public industry not only will no longer wage war against each other, but will walk arm-in-arm. The plan for the automobile of the (near) future, submitted by the president of FIAT, Cesare Romiti, and by the president of FINMECCANICA, Franco Viezzoli, will also benefit the nation's economy. By 1990, Italy will be able to import 19 million fewer metric tons of oil, saving 6.3 trillion lire. According to estimates, we would save over 1 trillion a year, starting in 1985.

It is not a question of something in the distant future. The two automobile companies have committed themselves to showing us, within the next 3 years, the first tangible signs of this automobile revolution. Small vehicles will reduce consumption by 15 percent; medium-large ones, by 20 to 25 percent. The Alfiat, the ideal automobile symbolizing the era of energy saving, will compete with the "economical" cars that American and Japanese companies are preparing to bring out.

In order to double the performance of four-wheeled cars, FIAT and Alfa intend to make automobiles more aerodynamic, lighter, with an engine that will "burn" less. But they have spoken clearly: the effort to "invent" an automobiles that will travel double the distance traveled by the present-day automobile, with the same fuel consumption, can be supported only under certain conditions. First of all, the state should not stand idly by, while this sophisticated technological revolution takes place. Italian automobile owners whould be induced, one way or another, to sell their old automobiles that consume more and to reserve immediately the new "jewels of technology" as soon as they come on the market. Because energy saving is a public duty, in addition to being a private interest. FIAT and Alfa are suggesting to the government that it have automobile taxes paid in inverse order in proportion to the gasoline consumption. The more gasoline consumed by an automobile, the more taxes it pays. In addition, the purchaser of a "sober" automobile will benefit from special tax deductions, aside from facilitated loans. FIAT and Alfa regret that Italian automobile owners are the ones most reluctant to turn in their old cars. In this country, automobiles over 5 years old form 63 percent of all automobiles in the nation. In the other EEC countries, they form much less than half.

FIAT and Alfa are convinced that a good part of the energy problem would be solved in this way. Once an automobile has been designed that will "drink" as little as possible, the only sector in which oil is truly indispensable will be improved. (An automobile cannot, in fact, run on solar energy and, with regard to electricity, it can only operate trolley cars and trolley buses). The rest of the crude oil goes for house heating and especially for producing electricity. But the energy plan provides that soon other sources (solar and nuclear) will be used for these two purposes. Obviously, the automobile industry is asking for money, while it offers this delight. The Alfiat project will require investments in research amounting to 1 to 1.2 trillion lire. The two companies answer the objection that it is not easy to find this amount at present by pointing out that the American automobile industry will need $15 billion, the equivalent of 18 trillion lire, to reconvert to automobiles with low fuel consumption. The plan does not say how much the car of the future will cost until the experts know it. But it is likely that it will cost a little more than today's car, although the saving in gasoline will, at any rate, make this operation advantageous.

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